The
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The Health-Care Tax

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The government's measure of unemployment has hit 10.2 percent. Given that the official House version of Obama's healthcare plan, HR 3962, has now passed, a close examination of the effects of "Obamacare" on the labor market is important. The Democrats' bill will seriously harm precisely those poor and uninsured citizens it is ostensibly designed to help. The harm will come by compounding mass unemployment and depriving these citizens of consumption choices.

Obamacare as Labor Tax

According to pages 269–273 of the gargantuan bill, employers of full-time workers will be required to cover at least 72.5 percent of the premium of the least expensive health-insurance plan available that fulfills the bill's minimum criteria of "acceptable coverage." In cases in which family coverage is provided, 62.5 percent of the premium is to be borne by the employer. Depending on the specific plan and other variables such as location, this amounts to a direct labor tax of approximately $300 per month for an individual, or nearly $700 for family coverage.

The implication of this increased cost is that workers whose revenue productivity is less than $300 per month higher than their wages will be laid off, or have their hours cut to the level that will classify them as part-time. Ignoring established labor law, the bill leaves the definition of part-time and full-time to the discretion of the Commissioner of Obama's massive new health bureaucracy. The lower the new "Health Choices Commissioner" sets the threshold in an attempt to maximize the number of people receiving the employer contribution, the more hours of production employers will have to shave off to push their employees under the threshold, and the less those workers will take home in wages each week.

Unfortunately, the bill also requires employers to cover a (smaller) percentage of the premium of the same minimum plan for part-time workers. The effects here are even worse than above, because they weaken the ability of an employer to escape the labor tax by employing his workers for fewer hours. Instead, with a labor tax on part-time workers as well, some low-productivity workers who are currently only working a few hours per week will be forced out of work entirely.

The Burden of Obamacare

We can say, as a mathematical certainty, that this labor tax is a regressive tax. Because the tax is defined as 72.5 percent of the same premium for all workers, that absolute tax will fall more heavily on workers for whom the tax represents a higher percentage of their wages or salary.

To understand this better, we will apply a $300 monthly labor tax to the differences between wages and revenue production for two different workers. If we make the simplifying assumption that a laborer is paid 99 percent of his revenue productivity, we can see that the absolute difference between productivity and wages is larger for high-income workers.

For example, a worker producing $50,000 of revenue per month will be paid $49,500 over the same period, delivering $500 in profit to his employer. A worker producing $10,000 in revenue monthly, meanwhile, will receive $9,900, for a difference of only $100. Despite the differences in their absolute return, in a free economy, both laborers are profitable hires and thus employed.

In a post-Obama America, however, only the high-wage worker will be employed, leaving the low-productivity worker out of employment. When a $300 per month charge is added to the cost of employing either worker, it is plain to see that only the high-wage worker's absolute profit will remain positive.

The firm will continue to make $200 by employing the high-productivity worker, while it will be forced to lay off the low-productivity worker rather than lose $200 by employing him. The Obamacare health tax thus will fall directly on the same employees who are hurt by minimum wage increases: teenagers, the disabled, and disadvantaged minorities.

If they do not wish to be laid off or cut to part-time, these low-productivity workers will accept a lower salary to keep their position and work schedule. Thus, the worker who produces $10,000 monthly will offer to accept a salary of $9,700 or less to save himself from a complete loss of employment or cut to part-time. These workers will offer to shift the cost directly onto themselves rather than burdening the employer with it, which would result in their unemployment.

Predictably, though, the Democrats fully intend to "protect" workers from the choice to save their jobs by working for less. Page 273 of the bill stipulates that any amount pledged for the minimum-health-insurance plan that corresponds to a fall in salary or wage will not be considered a contribution at all. Page 310 establishes a $100 per day, per case fine for any privately negotiated fall in wages. Thus, salaries will be locked in at current rates, with any cuts being considered an attempt to subvert the labor tax, and thus being subject to financial penalties.

In reality, this clause is no favor to workers, and instead acts as a wage floor to ensure that the unemployment effect will be immitigable and widespread. Because any drop in wages during the months following the bill's enactment would be considered a violation of the employer-contribution mandate and therefore would carry heavy fines, literally all wages will

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be prevented from falling below their current levels.

Implementing these indirect wage floors in literally every industry during a recession is downright ludicrous. During a recession, wages rise and fall in different lines of production to align producers' demand for laborers with consumers' demand for the goods each type of labor produces.

In a dynamic market—that is, any market in which people are free to change their minds—different workers' wages must rise and fall every day to accommodate changing consumer preferences. To prevent this process from taking place is to prevent the structure of production from being corrected.

These wage floors will also hasten the decline of industries that are less valuable to consumers than they were at an earlier time, but that may still be a productive use of resources at a lower price. Businesses in these industries will be unable to legally cut their labor costs to lower their prices and satisfy consumers who are less eager to buy their goods. Without this option, such firms will need to either lay off part of their labor force, or simply go out of business entirely.

Destroying Real Production

It is equally important to consider the other end of the production chain, which is to say the actual output of goods and services. By destroying the demand for marginally productive labor, Obamacare's labor tax will necessarily destroy that labor's end product, which is of course marginally-valued goods and services. Thus, it is rational to expect fewer late-night fast food options, less-clean hotel rooms, fewer sales associates at retail outlets, and the like.

While these effects may not be as easily visible as a plant closure, they are real losses of consumable utility. Free-market firms produce convenience and extra quality until the point at which it is no longer profitable to do so. Destroying the production of these goods and services would destroy the niceties that capital accumulation and progress allow Americans to take for granted.

The effect of Obamacare on the prices of produced goods is obviously inflationary. Increasing the cost of employing every single laborer by $300 each is certain to increase the price of all produced goods. Combining price increases with rising unemployment is hardly a laudable strategy for improving the lives of poor citizens.

Conclusion

The historic passage of HR 3962 by the House of Representatives is not an event to be celebrated. Obamacare will exacerbate the nation's rising unemployment and will prevent wages from fluctuating according to market demand. Just as with other sectors, a supposedly beneficial social policy hurts the poorest and least-able citizens the most. ■

The Triumph of Socialism

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Do you think ideas don't matter, that what people believe about themselves and their world has no real consequence? If so, the following will not bug you in the slightest.

A new BBC poll finds that only 11 percent of people questioned around the world—and 29,000 people were asked their opinions—think that free-market capitalism is a good thing. The rest believe in more government regulation. Only a small percentage of the world's population believes that capitalism works well and that more regulation will reduce efficiency.

One quarter of those asked said that capitalism is "fatally flawed." In France, 43 percent believe this. In Mexico, it is 38 percent. A majority believes that government should rob the rich to give money to poor countries. In only one country, Turkey, did a majority say that less government is better.

It gets even worse. While most Europeans and Americans think it was a good thing for the Soviet Union to disintegrate, people in India, Indonesia, Ukraine, Pakistan, Russia, and Egypt mostly think it was a bad thing. Yes, you read that right: millions freed from socialist slavery—a bad thing.

That news must lift the heart of every would-be despot the world over. And it comes as something of a shock 20 years after the collapse of socialism in Russia and Eastern Europe revealed what this system had created: backward societies with citizens who lived short and miserable lives. Then there is the China case, a country rescued from bloody barbarism under communism and transformed into a modern and prosperous country by capitalism.

What can we learn? Far from not having learned anything, people have largely forgotten the experience and have developed a love for the ancient fairy tale that all things can be fixed through collectivism and central planning.

As to those who would despair at this poll, consider that it might have been much worse were it not for the efforts of a relative handful of intellectuals who have fought against socialist theory for more than a century. It might have been 99 percent in support of socialist tyranny. So there is no sense in saying that these intellectual efforts are wasted.

Ideas also have a life of their own. They can lie in wait for decades or centuries and then one day, the whole of history turns on a dime. Especially these days, no effort goes to waste. Publications and essays, or any form of education, is immortalized, ready for the taking by a desperate world.

As for the opinion poll, we have no idea just how intensely these views are held or even what they mean. What, for example, is capitalism? Do people even know? Michael Moore doesn't know, else he wouldn't be calling bailouts for elite, Fed-connected financial firms a form of capitalism. Many other people reduce the term capitalism to "the system of economics in the United States." It is no more complicated than that. This is despite the reality that the United States has a comprehensive planning apparatus in place that is directly responsible for all our current economic troubles.

Now, let's take this further. Among the many people around the world who do not like the US empire, many believe they don't like capitalism either. If the US economy drags the world down into recession, that is a prime example of capitalism's failure. Even more preposterous, if you didn't like George W. Bush, his ways, and his cronies, and Obama is something of a relief, then you don't like capitalism and you do like socialism.

Another point of view misunderstands the idea of capitalism itself. It is not about creating economic structures that benefit capital at the expense of labor or culture or religion. It is about a system that protects the rights of everyone and serves the common good. Capitalism is just the name that happened to be identified with this system. If you want to call freedom a banana, fine, what matters is not words but ideas.

I do know that none of these messed-up definitions of capitalism follow. You know this too. But for the world at large, serious ideological analytics are not the animating force of daily life. Many people attach themselves to vague slogans.

Further, as Rothbard has forcefully argued, free-market capitalism serves no more than a symbolic purpose for the Republican Party and for conservatives. Economic liberty is the utopia that they keep promising to bring us, pending the higher priority of blowing up foreign peoples, jailing political dissidents, crushing the left wing on campus, and routing the Democrats.

Once all of this is done, they say, then they will get to the instituting of a free-market economic system. Of course, that day never arrives, and it is not supposed to. Capitalism serves the Republicans the way Communism served Stalin: a symbolic distraction to keep you hoping, voting, and coughing up money.

All of which leaves true capitalism—a product of the voluntary society and the sum total of all the exchanges and cooperative acts of people all over the world—with few actual intellectual defenders. They are growing, but the educational work we need to do is daunting, and we are facing the most powerful forces in the world.

There is nothing new in this. In the history of the world, freedom is the exception, not the rule. It must be fought for anew in every generation. Its enemies are everywhere, but the leading enemy is ignorance. For this reason, the main weapon we have at our disposal is education.

Education includes explaining that socialism is an unworkable idea. There is nothing better than Ludwig von Mises's 1922 book *Socialism*, a comprehensive presentation of the fallacy of the socialist idea. Another essential work is the *Black Book of Communism*. Here we have a wake-up call that shows that the dream of socialism is actually a bloody nightmare.

Then there is the issue of the positive case for capitalism. One can do no better than Mises's own *Human Action*, which is not likely to ever be surpassed as a treatise on the free economy. True, it is not for everyone. And that's fine. There are many primers out there too.

The fashion for socialism and the opposition to capitalism should alarm every lover of freedom the world over. We have our jobs cut out for us, but with numbers this bad, it is not difficult to make a difference. Every blow you can land for free markets helps protect freedom from its enemies. ■

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